

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>City of Wyandotte Department of Municipal Services</u>	County <u>Wayne</u>
Audit Date <u>September 30, 2003</u>	Opinion Date <u>November 26, 2003</u>	Date Accountant Report Submitted To State: <u>March 10, 2004</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>Plante &amp; Moran, PLLC</b>			
Street Address <u>27400 Northwestern Highway</u>	City <u>Southfield</u>	State <u>MI</u>	ZIP <u>48034</u>
Accountant Signature  <i>Plante &amp; Moran, PLLC</i>			

**City of Wyandotte, Michigan  
Department of Municipal Service**

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**Financial Report  
September 30, 2003**

# **City of Wyandotte, Michigan**

## **Department of Municipal Service**

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## Independent Auditor's Report

To the Members of the Municipal Service  
Commission  
City of Wyandotte, Michigan

We have audited the accompanying basic financial statements of the City of Wyandotte, Michigan Department of Municipal Service as of and for the years ended September 30, 2003 and 2002. These financial statements are the responsibility of the Department of Municipal Service's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Department of Municipal Service and are not intended to present fairly the financial position of the City of Wyandotte, Michigan and the results of its income and cash flows of its proprietary fund types, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Wyandotte, Michigan Department of Municipal Service at September 30, 2003 and 2002 and the results of its income and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14, the Department adopted Governmental Accounting Standards Board Statement Number 34 during the current year. As a result, the equity section of the statements now includes net assets (in its three components), rather than contributed capital and retained earnings.

The management's discussion and analysis is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the City of Wyandotte, Michigan Department of Municipal Service. We did not examine this data and, accordingly, do not express an opinion thereon.

*Plante & Moran, PLLC*



November 26, 2003

# **City of Wyandotte, Michigan**

## **Department of Municipal Service**

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### **Management's Discussion and Analysis**

Our discussion and analysis of Wyandotte Department of Municipal Service's performance provides an overview of the Department's financial activities for the fiscal year ended September 30, 2003. Please read it in conjunction with the Department's financial statements.

#### **Using this Annual Report**

The Department of Municipal Service (the "Department") is a department created by the City of Wyandotte, Michigan (the "City") that is governed and operated independently from the City by the Municipal Service Commission (the "Commission"). The Commission provides electric, water, cable television, and Internet services to users in the City and accounts for these activities in separate funds. This annual report consists of a series of financial statements. The statements are presented in a different format than the prior year because this is the initial year of adoption of Government Accounting Standards Board Statement Number 34. The statement of net assets and the statement of revenue, expenses, and changes in net assets provide information about the financial activities of the Department. This is followed by the statement of cash flows, which presents detailed information about the changes in the Department's cash position during the year.

#### **Financial Highlights**

##### **Electric Fund**

- The Electric Fund's operating revenue declined slightly for the year by .92 percent.
- The Electric Fund's operating expenses decreased by 3.7 percent, as a result of lower power supply costs, particularly in the area of purchased power.
- Accordingly, operating income increased by approximately \$609,000 or 35 percent.
- The Department completed an electric utility cost of service study and redesigned electric rates to encourage more efficient use of energy and the municipal electric generation, transmission, and distribution facilities. The new commercial and industrial electric rates are designed to reduce consumer bills 2 percent to 4.5 percent.
- Because of continued price volatility and significant price increases for Central Appalachian compliance coal (our traditional fuel source for Boiler #7), the Department conducted tests using Western Bituminous compliance coal. The test burn indicated the Department could successfully burn Western Bituminous compliance coal by with about \$100,000 of improvements to Boiler #7, which were completed in the fall of 2003. The second fuel source allowed us to reduce the cost of compliance coal by approximately \$161,000 in fiscal year 2003 and allowed us to avoid additional costs of \$939,000 in 2004 compared to higher Central Appalachian compliance coal prices.

# **City of Wyandotte, Michigan**

## **Department of Municipal Service**

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### **Management's Discussion and Analysis (Continued)**

- The Department received approval from the MDEQ to burn untreated wood in Boiler #8 and to conduct tests in early 2004 to increase the permitted burn volume of tire derived fuel (TDF). If successful, this increase in TDF is projected to save \$150,000 to \$200,000 annually compared to the cost of burning mid-sulfur coal in Boiler #8.
- In 2003, the Department developed a power supply plan and solicited short-term wholesale power supply proposals from various power suppliers. The Department was able to evaluate proposed purchased power options versus local power production, resulting in the advance purchase of power in June, July, and August in conjunction with local power production. The power purchase was made from the Michigan Public Power Agency at a price of \$80,000 less than the next closest supplier's bid and at a price of more than \$200,000 less than its traditional supplier's proposed price.
- The Department's bond ordinance specifies that the Department's Electric Fund budget provide net revenue that equals or exceeds 110 percent of the annual debt service requirement. The ratio that measures the relationship between the Department's net revenue and its annual debt service requirement is known as the "debt service coverage ratio". While the 110 percent debt service coverage ratio test is prospective, it is important that the Department's actual results yield net revenue that equals or exceeds 110 percent of the annual debt service requirement. The actual debt service coverage ratio for the year exceeded 110 percent (approximately 142 percent for the year ended September 30, 2003).
- Another financial covenant in the Department's bond ordinance requires that actual expenditures of the Department do not exceed budget. During the current year, the Department did not have to amend its budget in order to comply with this ordinance.

### **Water Fund**

- While the Water Fund's operating revenue increased approximately 3.2 percent in the current year, it was a result of the Commission reclassifying an infrastructure charge (reported as a nonoperating revenue) to a component of the base water utility rates. Consumption by users of the water system actually declined from last year.
- The Water Fund has not generated any meaningful amounts of working capital or excess operating cash. The Water Fund has been assisted by annual contributions from the City's Tax Increment Financing Authority for water main construction. The current year contribution was approximately \$304,000.

# **City of Wyandotte, Michigan**

## **Department of Municipal Service**

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### **Management's Discussion and Analysis (Continued)**

- This year's financial statement reports a deficit in unrestricted net assets of approximately \$387,000. A water utility cost of service study is underway, and management and the Commission are currently reviewing potential adjustments to the rate structure of the water utility, along with other options to improve the financial condition of the Water Fund.

#### **Cable Television Fund**

- The Cable Television Fund's operating revenue increased by 2.6 percent, due mainly to an increase in cable modem Internet revenue of \$271,000 or 31 percent.
- The Cable Television Fund's operating income decreased by approximately \$302,000 or 66 percent as a result of increases in operating expenses (particularly royalties paid for satellite programming services) which were not passed along to customers through rate increases.
- The Cable Fund still continues to accumulate excess operating cash to retire the debt outstanding on the rebuild of its fiber optic cable network completed in 1999.
- The Department connected the 10 Wyandotte Public School buildings and administrative offices through the municipal fiber optic system under an agreement with the schools. This project allowed the school district to utilize bond proceeds to finance the project at a significant saving versus constructing and maintaining its own system and provided unanticipated revenues that benefit all local telecommunications consumers.

The Department also completed a strategic planning process involving key staff, Municipal Service Commissioners, and consultants to identify key issues facing the Department and develop plans that will ensure continued reliable, affordable services to our community.

# City of Wyandotte, Michigan

## Department of Municipal Service

### Management's Discussion and Analysis (Continued)

#### Condensed Financial Information

The following table presents condensed information about the Department's financial position compared to the prior year:

	Year Ended September 30		Change	
	2003	2002	Amount	Percent
<b>Assets</b>				
Current assets	\$ 10,141,549	\$ 8,271,903	\$ 1,869,646	22.60
Restricted assets	12,759,412	12,942,001	(182,589)	(1.41)
Property, plant, and equipment	63,719,502	67,742,106	(4,022,604)	(5.94)
Other	853,890	915,990	(62,100)	(6.78)
Total assets	87,474,353	89,872,000	(2,397,647)	(2.67)
<b>Liabilities</b>				
Current liabilities	8,385,399	8,383,271	2,128	0.03
Liabilities payable from restricted assets	3,227,006	2,725,317	501,689	18.41
Long-term debt	42,791,929	45,478,605	(2,686,676)	(5.91)
Total liabilities	54,404,334	56,587,193	(2,182,859)	(3.86)
<b>Net Assets</b>				
Invested in capital assets - Net of debt	16,132,573	18,003,501	(1,870,928)	N/A
Restricted assets	9,457,646	10,435,623	(977,977)	(9.37)
Unrestricted	7,479,800	4,845,683	2,634,117	54.36
Total net assets	<u>\$ 33,070,019</u>	<u>\$ 33,284,807</u>	<u>\$ (214,788)</u>	N/A

The following table presents condensed information about the Department's revenues and expenses, compared to the prior year:

	Year Ended September 30		Change	
	2003	2002	Amount	Percent
Total operating revenue	\$ 30,105,128	\$ 30,127,412	\$ (22,284)	(0.07)
Total operating expenses	28,721,305	29,132,705	(411,400)	(1.41)
Operating income	1,383,823	994,707	389,116	39.12
Operating transfers out	(92,322)	(129,389)	37,067	(28.65)
Contributions	304,136	400,000	(95,864)	(23.97)
Other nonoperating expense	(1,810,425)	(2,261,259)	450,834	(19.94)
Net loss	<u>\$ (214,788)</u>	<u>\$ (995,941)</u>	<u>\$ 781,153</u>	(78.43)



# **City of Wyandotte, Michigan**

## **Department of Municipal Service**

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### **Management's Discussion and Analysis (Continued)**

#### **Capital Asset and Debt Administration**

During the year, the Department completed a variety of projects in each fund. The Electric Fund's capital spending was directed at power plant improvements and the electric distribution system. The Water Fund completed water treatment plant improvements and water mains with the financial assistance of the City's Tax Increment Financing Authority. The Cable Television Fund was involved with headend upgrades, replacement of studio equipment, and a project with Wyandotte Public Schools to connect their facilities using the Department's telecommunication system.

The Department continues to be current on servicing debt obligations outstanding.

#### **Economic Factors and Next Year's Rates**

As discussed, the Commission is in the process of addressing the Water Fund's negative working capital position and rate adjustments are very likely over the next several years. The Cable Television Fund is performing a cost of service study that will likely result in small rate adjustments over the next several years to address annual cost increases (specifically royalties) and encourage growth in optional services.

#### **Contacting the Department's Management**

This financial report is intended to provide our consumers and investors with a general overview of the Department's finances. If you have questions about this report or need additional information, we welcome you to contact the Department's General Manager.

# City of Wyandotte, Michigan

## Department of Municipal Service

### Statement of Net Assets

	September 30					
	2003					2002
	Electric Fund	Water Fund	Cable Television Fund	Eliminations	Total	Total
<b>Assets</b>						
<b>Current Assets</b>						
Cash and investments (Note 3)	\$ 3,082,985	\$ -	\$ 707,150	\$ -	\$ 3,790,135	\$ 2,888,917
Accounts receivable:						
Billed (Note 4)	1,411,117	177,972	314,981	-	1,904,070	1,740,550
Unbilled	1,683,671	92,300	-	-	1,775,971	1,775,971
Due from other funds	125	-	182,371	(182,496)	-	-
Fuel, materials, supplies, and other inventories	1,781,362	88,293	42,434	-	1,912,089	1,458,024
Prepaid insurance and other current assets	557,311	36,145	165,828	-	759,284	408,441
Total current assets	8,516,571	394,710	1,412,764	(182,496)	10,141,549	8,271,903
<b>Noncurrent Assets</b>						
Restricted assets (Note 7)	11,504,837	145,393	1,109,182	-	12,759,412	12,942,001
Bond issuance costs (Note 12)	853,890	-	-	-	853,890	915,990
Property, plant, and equipment (Note 5)	51,799,865	7,841,128	4,078,509	-	63,719,502	67,742,106
Total noncurrent assets	64,158,592	7,986,521	5,187,691	-	77,332,804	81,600,097
Total assets	<u>\$ 72,675,163</u>	<u>\$ 8,381,231</u>	<u>\$ 6,600,455</u>	<u>\$ (182,496)</u>	<u>\$ 87,474,353</u>	<u>\$ 89,872,000</u>
<b>Liabilities and Fund Equity</b>						
<b>Current Liabilities</b>						
Current portion of long-term debt (Note 6)	\$ 2,420,000	\$ -	\$ 375,000	\$ -	\$ 2,795,000	\$ 2,375,000
Accounts payable	1,917,625	10,015	499,556	-	2,427,196	1,666,169
Due to other funds	15,000	167,371	125	(182,496)	-	-
Due to City of Wyandotte (Note 9):						
Sewage Disposal Fund	-	370,109	-	-	370,109	969,140
General Fund	-	-	-	-	-	772,920
Accrued compensation	111,782	26,343	28,058	-	166,183	176,317
Other accrued liabilities	1,089,404	208,086	434,178	-	1,731,668	1,710,207
Deferred revenue	-	-	185,000	-	185,000	-
Customer deposits and other current liabilities	474,368	-	235,875	-	710,243	713,518
Total current liabilities	6,028,179	781,924	1,757,792	(182,496)	8,385,399	8,383,271
<b>Liabilities to be Paid from Restricted Assets - Debt service payable</b>						
	3,227,006	-	-	-	3,227,006	2,725,317
<b>Long-term Debt - Net of current portion and amount payable from restricted assets (Note 6)</b>						
	40,125,398	-	2,666,531	-	42,791,929	45,478,605
<b>Net Assets</b>						
Invested in property, plant, and equipment - Net of related debt	7,254,467	7,841,128	1,036,978	-	16,132,573	18,003,501
Restricted (Note 7)	8,203,071	145,393	1,109,182	-	9,457,646	10,435,623
Unrestricted	7,837,042	(387,214)	29,972	-	7,479,800	4,845,683
Total net assets	23,294,580	7,599,307	2,176,132	-	33,070,019	33,284,807
Total liabilities and net assets	<u>\$ 72,675,163</u>	<u>\$ 8,381,231</u>	<u>\$ 6,600,455</u>	<u>\$ (182,496)</u>	<u>\$ 87,474,353</u>	<u>\$ 89,872,000</u>

# City of Wyandotte, Michigan

## Department of Municipal Service

### Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended September 30				
	2003				2002
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
<b>Operating Revenue</b>	\$ 23,081,874	\$ 1,812,224	\$ 5,211,030	\$ 30,105,128	\$ 30,127,412
<b>Operating Expenses</b>					
Production, pumping, and purification	11,768,769	631,336	-	12,400,105	13,163,301
Distribution	954,063	497,459	643,095	2,094,617	2,327,404
Cable television royalties	-	-	2,476,359	2,476,359	2,265,744
Customer service	163,369	50,133	76,112	289,614	300,898
Office and administrative	478,932	211,821	418,755	1,109,508	921,562
General and miscellaneous	3,090,931	513,390	820,126	4,424,447	4,419,382
Transportation	42,410	12,824	8,790	64,024	43,336
Depreciation	4,839,231	412,215	611,185	5,862,631	5,691,078
Total operating expenses	21,337,705	2,329,178	5,054,422	28,721,305	29,132,705
<b>Operating Income (Loss)</b>	1,744,169	(516,954)	156,608	1,383,823	994,707
<b>Nonoperating Income (Expenses)</b>					
Gain (loss) on sale of asset	5,819	1,000	(26,103)	(19,284)	27,834
Infrastructure revenue	-	373,566	-	373,566	497,006
Interest and other income	218,771	114,491	172,035	505,297	711,593
Interest expense	(2,475,234)	-	(132,670)	(2,607,904)	(3,408,439)
Amortization of bond issuance costs	(62,100)	-	-	(62,100)	(89,253)
Total nonoperating income (expenses)	(2,312,744)	489,057	13,262	(1,810,425)	(2,261,259)
<b>Income (Loss) - Before operating transfers and contribution of fixed assets</b>	(568,575)	(27,897)	169,870	(426,602)	(1,266,552)
<b>Operating Transfers Out - City of Wyandotte</b>	-	(92,322)	-	(92,322)	(129,389)
<b>Contribution of Fixed Assets</b>	-	304,136	-	304,136	400,000
<b>Net Income (Loss)</b>	(568,575)	183,917	169,870	(214,788)	(995,941)
<b>Net Assets - Beginning of year</b>	23,863,155	7,415,390	2,006,262	33,284,807	34,280,748
<b>Net Assets - End of year</b>	<u>\$ 23,294,580</u>	<u>\$ 7,599,307</u>	<u>\$ 2,176,132</u>	<u>\$ 33,070,019</u>	<u>\$ 33,284,807</u>

# City of Wyandotte, Michigan

## Department of Municipal Service

### Statement of Cash Flows

	Year Ended September 30				
	2003				2002
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
<b>Cash Flows from Operating Activities</b>					
Cash received from customers	\$ 22,992,371	\$ 1,819,676	\$ 5,129,561	\$ 29,941,608	\$ 30,186,846
Cash payments to suppliers for goods and services	(12,656,899)	(2,408,388)	(3,891,113)	(18,956,400)	(18,657,445)
Cash payments to employees for services	(4,070,076)	(708,920)	(365,342)	(5,144,338)	(4,666,394)
Net cash provided by (used in) operating activities	6,265,396	(1,297,632)	873,106	5,840,870	6,863,007
<b>Cash Flows from Noncapital Financing Activities -</b>					
Operating transfer	-	(92,322)	-	(92,322)	(129,389)
<b>Cash Flows from Capital and Related Financing Activities</b>					
Infrastructure revenue	-	373,566	-	373,566	497,006
Principal and interest paid on long-term debt	(3,865,221)	-	(507,670)	(4,372,891)	(5,436,944)
Defeasance of revenue bonds	-	-	-	-	(2,128,686)
Bond issuance costs paid	-	-	-	-	(931,515)
Purchase of capital assets - Net of reimbursements	(1,123,113)	(127,458)	(285,320)	(1,535,891)	(2,570,032)
Net cash provided by (used in) capital and related financing activities	(4,988,334)	246,108	(792,990)	(5,535,216)	(10,570,171)
<b>Cash Flows from Investing Activities</b>					
Sale (purchase) of investments - Net	-	-	-	-	3,718,209
Interest received on investments	218,771	114,491	172,035	505,297	711,593
Net cash provided by investing activities	218,771	114,491	172,035	505,297	4,429,802
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	1,495,833	(1,029,355)	252,151	718,629	593,249
<b>Cash and Cash Equivalents - Beginning of year</b>	13,091,989	1,174,748	1,564,181	15,830,918	15,237,669
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 14,587,822</u>	<u>\$ 145,393</u>	<u>\$ 1,816,332</u>	<u>\$ 16,549,547</u>	<u>\$ 15,830,918</u>
<b>Reconciliation to Balance Sheet</b>					
Cash and investments	\$ 3,082,985	\$ -	\$ 707,150	\$ 3,790,135	\$ 2,888,917
Restricted assets	11,504,837	145,393	1,109,182	12,759,412	12,942,001
<b>Total</b>	<u>\$ 14,587,822</u>	<u>\$ 145,393</u>	<u>\$ 1,816,332</u>	<u>\$ 16,549,547</u>	<u>\$ 15,830,918</u>

# City of Wyandotte, Michigan

## Department of Municipal Service

### Statement of Cash Flows (Continued)

	Year Ended September 30				
	2003				2002
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>					
Operating income (loss)	\$ 1,744,169	\$ (516,954)	\$ 156,608	\$ 1,383,823	\$ 994,707
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation/Amortization	4,839,231	412,215	611,185	5,862,631	5,691,078
Gain (loss) on sale of property, plant, and equipment	5,819	1,000	(26,103)	(19,284)	-
Changes in assets and liabilities:					
Receivables	(89,503)	7,452	(81,344)	(163,395)	59,434
Due from other funds	(125)	-	(182,371)	(182,496)	-
Inventory	(435,977)	(13,152)	(4,936)	(454,065)	(203,064)
Prepaid insurance and other current assets	(274,029)	(7,465)	(69,349)	(350,843)	(205,828)
Accounts payable	577,691	(78,820)	262,156	761,027	(311,046)
Due to other funds	(94,667)	167,371	-	72,704	-
Accrued and other liabilities	(7,213)	(6,995)	22,260	8,052	309,179
Due to City of Wyandotte	-	(1,262,284)	-	(1,262,284)	528,547
Deferred revenue	-	-	185,000	185,000	-
Net cash provided by (used in) operating activities	<u>\$ 6,265,396</u>	<u>\$ (1,297,632)</u>	<u>\$ 873,106</u>	<u>\$ 5,840,870</u>	<u>\$ 6,863,007</u>

During the years ended September 30, 2003 and 2002, constructed water mains were donated to the Department in the amount of \$304,136 and \$400,000, respectively.

# **City of Wyandotte, Michigan**

## **Department of Municipal Service**

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### **Notes to Financial Statements**

#### **September 30, 2003 and 2002**

#### **Note 1 - Nature of Entity**

The Department of Municipal Service (the "Department") is a department created by the City of Wyandotte, Michigan (the "City") that is governed and operated independently from the City by the Municipal Service Commission (the "Commission"). The Commission provides electric, water, cable television, and Internet services to users in the City and accounts for these activities in separate funds.

The funds of the Department are included in the basic financial statements of the City at September 30, 2003.

#### **Note 2 - Summary of Significant Accounting Policies**

The accounting policies of the Department conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

**Reporting Entity** - The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. In accordance with these guidelines, there are no component units to be included in these financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Private sector standards of accounting issued prior to December 1, 1989 are generally followed in the financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Department has not elected to apply private sector standards issued after December 31, 1989.

As a general rule, the effect of interfund activity has been eliminated from the statements. Exceptions to this general rule are charges between the City's enterprise functions and various other functions of the City. Eliminations of these charges would distort the costs and revenues for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations.

# City of Wyandotte, Michigan

## Department of Municipal Service

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### Notes to Financial Statements September 30, 2003 and 2002

#### **Note 2 - Summary of Significant Accounting Policies (Continued)**

The operating revenue represents billings to customers based primarily on usage by the Department's customers. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Assets, Liabilities, and Net Assets**

**Cash Equivalents** - Cash equivalents consist of highly liquid investments with an original maturity of three months or less, including certificates of deposit, government investment pools, and other cash management funds. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are reported at fair value, based on quoted market prices.

**Inventories** - Inventories are stated at the lower of cost, determined by the average cost method for general inventory and determined by the first-in, first-out method for coal inventory, or market.

**Significant Customers** - The Electric Department has two significant customers, Wayne County, Michigan and BASF Corporation, representing approximately 9 percent and 19 percent, respectively, of the Electric Department's operating revenue for the year ended September 30, 2003.

The Water Department has three significant customers, BASF Corporation, Wayne County, and the Department of Municipal Service's Electric Department, representing approximately 21 percent, 6 percent, and 4 percent, respectively, of the Water Department's operating revenue for the year ended September 30, 2003.

**Property, Plant, and Equipment** - Property, plant, and equipment are recorded at cost or, if donated, at their estimated fair value on the date donated. Depreciation is charged as an expense against the operations of the Department on a straight-line basis. No depreciation expense has been recorded for amounts reflected as construction in progress.

**Deferred Revenue** - Deferred revenue relates to a contract in the Cable Television Fund between the Department and Wyandotte Public Schools related to construction and usage of the Department's fiber optic cable system. Monies received in advance will be recognized over the term of the contract.

# City of Wyandotte, Michigan

## Department of Municipal Service

### Notes to Financial Statements September 30, 2003 and 2002

#### Note 2 - Summary of Significant Accounting Policies (Continued)

**Pension Plan** - The Department has a defined benefit retirement plan covering substantially all permanent, full-time employees through participation in the City of Wyandotte Employees' Retirement System. Annual retirement expense includes a provision for funding prior service costs in excess of fund assets on the basis of funding such excess over a remaining period of 15 years as of September 2003. The Department's policy is to fund retirement cost accrued.

#### Note 3 - Deposits and Investments

The Department's deposits and investments at September 30, 2003 and 2002 are included on the balance sheet under the following classifications:

	Balance Sheet Classification			
	2003		2002	
	Cash and Investments	Restricted Assets	Cash and Investments	Restricted Assets
Deposits	\$ 1,468,558	\$ -	\$ 693,093	\$ -
Investments	2,321,577	12,759,412	2,195,824	12,942,001
Total	<u>\$ 3,790,135</u>	<u>\$ 12,759,412</u>	<u>\$ 2,888,917</u>	<u>\$ 12,942,001</u>

**Deposits** - The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$3,160,000 and \$2,830,000 in 2003 and 2002, respectively.

Of those amounts, up to \$200,000 was covered by federal depository insurance in 2003 and 2002. This insurance coverage pertains to all the deposits of the City of Wyandotte; hence, the specific coverage pertaining to the Department's deposits, if any, is not determinable. Of the preceding deposit amounts, therefore, the uninsured and uncollateralized portions totaled at least \$2,960,000 and \$2,630,000 in 2003 and 2002, respectively.

The Department's cash management approach utilizes a bank investment pool, which is directly related to the Department's bank deposits. However, pursuant to Governmental Accounting Standards Board Statement Number 3, the bank investment pool is classified as "investments" for this Note.



# City of Wyandotte, Michigan

## Department of Municipal Service

### Notes to Financial Statements September 30, 2003 and 2002

#### Note 3 - Deposits and Investments (Continued)

The Department believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Department evaluates each financial institution with which it deposits Department funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Investments** - The Department is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles. The revenue bond ordinance described in Note 6 places further restrictions on investments of certain monies.

Normally, investments are categorized to give an indication of the level of risk assumed by the entity in holding certain types of investments. However, the investments of the Department are not categorized because they are not evidenced by securities that exist in physical or book entry form. The Department believes that all investments comply with the investment authority noted above.

	Carrying Amount (Fair Value)	
	2003	2002
U.S. government pooled investment fund and other bank investment pools	<u>\$ 15,080,989</u>	<u>\$ 15,137,825</u>

The pooled investment fund and the bank investment pools are regulated by the Michigan Banking Act, and the fair value of the position in the pool is the same as the value of the pool shares.

# City of Wyandotte, Michigan

## Department of Municipal Service

### Notes to Financial Statements September 30, 2003 and 2002

#### Note 4 - Billed and Unbilled Accounts Receivable

Billed accounts receivable, net of allowance for uncollectible accounts, are as follows:

	2003				2002
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Accounts receivable	\$ 1,533,757	\$ 180,095	\$ 325,020	\$ 2,038,872	\$ 1,889,422
Less allowance for uncollectible accounts	<u>(122,640)</u>	<u>(2,123)</u>	<u>(10,039)</u>	<u>(134,802)</u>	<u>(148,872)</u>
Net accounts receivable	<u>\$ 1,411,117</u>	<u>\$ 177,972</u>	<u>\$ 314,981</u>	<u>\$ 1,904,070</u>	<u>\$ 1,740,550</u>

Unbilled accounts receivable represents services that have been provided to customers through September 30, 2003 for which billings were processed subsequent to year end.

#### Note 5 - Property, Plant, and Equipment

	Balance at October 1, 2002	Additions	Disposals and Adjustments	Balance at September 30, 2003
Capital assets being depreciated:				
Utility plant	\$ 89,917,022	\$ 705,042	\$ -	\$ 90,622,064
Transmission	5,768,155	-	-	5,768,155
Pumping	1,598,624	78,819	-	1,677,443
Purification	3,615,448	73,613	-	3,689,061
Distribution	33,757,194	387,886	-	34,145,080
Transportation	1,388,447	423,948	-	1,812,395
Stores	695,953	41,872	-	737,825
Cable equipment	891,711	61,079	-	952,790
Studio	444,068	8,478	-	452,546
General	2,884,740	50,721	110,310	2,825,151
Construction in progress	<u>-</u>	<u>118,879</u>	<u>-</u>	<u>118,879</u>
Total capital assets being depreciated	140,961,362	1,950,337	110,310	142,801,389

# City of Wyandotte, Michigan

## Department of Municipal Service

### Notes to Financial Statements September 30, 2003 and 2002

#### Note 5 - Property, Plant, and Equipment (Continued)

	Balance at October 1, 2002	Additions	Disposals and Adjustments	Balance at September 30, 2003
Accumulated depreciation:				
Utility plant	\$ 43,422,764	\$ 3,839,117	\$ -	\$ 47,261,881
Transmission	3,778,465	176,319	-	3,954,784
Pumping	623,543	86,656	-	710,199
Purification	2,682,606	96,790	-	2,779,396
Distribution	18,256,308	1,264,412	-	19,520,720
Transportation	1,159,297	109,849	-	1,269,146
Stores	461,254	38,719	-	499,973
Cable equipment	353,429	108,504	-	461,933
Studio	341,831	34,884	-	376,715
General	2,139,759	107,381	-	2,247,140
Total accumulated depreciation	73,219,256	5,862,631	-	79,081,887
Net capital assets being depreciated	\$ 67,742,106	\$ (3,912,294)	\$ 110,310	\$ 63,719,502

Depreciation of \$4,839,231 and \$4,649,730 for the Electric Fund, \$412,215 and \$376,109 for the Water Fund, and \$611,185 and \$665,239 for the Cable Television Fund has been included in operating expenses of the appropriate fund for the years ended September 30, 2003 and 2002, respectively.

**City of Wyandotte, Michigan**  
**Department of Municipal Service**

**Notes to Financial Statements**  
**September 30, 2003 and 2002**

**Note 6 - Long-term Debt**

**Outstanding Debt**

Long-term debt outstanding is as follows:

	2003			2002
	Electric	Cable		
	Fund	Television	Total	Total
	Fund	Fund		
1992 revenue refunding bonds - Net of unamortized discount and deferred refunding credit	\$ 14,045,000	\$ -	\$ 14,045,000	\$ 15,930,000
2002 revenue refunding bonds - Net of unamortized premium and deferred refunding charge	30,500,398	-	30,500,398	30,392,074
1998 Installment Purchase Agreement	-	3,041,531	3,041,531	3,416,531
Less current portion	(2,420,000)	(375,000)	(2,795,000)	(2,375,000)
Less portion payable from restricted assets	<u>(2,000,000)</u>	<u>-</u>	<u>(2,000,000)</u>	<u>(1,885,000)</u>
Total long-term debt - Net of current portion and amount payable from restricted assets	<u>\$ 40,125,398</u>	<u>\$ 2,666,531</u>	<u>\$ 42,791,929</u>	<u>\$ 45,478,605</u>

# City of Wyandotte, Michigan

## Department of Municipal Service

### Notes to Financial Statements September 30, 2003 and 2002

#### Note 6 - Long-term Debt (Continued)

##### Changes in Long-term Debt

The following is a summary of long-term debt transactions of the Department for the years ended September 30, 2003 and 2002:

	2002 Revenue Refunding Bonds (Net of Premium and Deferred Refunding Charge)	1992 Revenue Refunding Bonds (Net of Discount and Deferred Refunding Credit)	1998 Cable Installment Purchase Agreement	Total
Long-term debt - October 1, 2001	\$ -	\$ 50,148,802	\$ 3,791,531	\$ 53,940,333
New debt issued	31,990,000	-	-	31,990,000
Debt retired	-	(1,780,000)	(375,000)	(2,155,000)
Debt defeased	-	(33,415,000)	-	(33,415,000)
Deferred premium on refunding	893,834	-	-	893,834
Deferred charge on refunding	(2,518,841)	-	-	(2,518,841)
Discount (premium)/deferred charge amortization	27,081	976,198	-	1,003,279
Long-term debt - September 30, 2002	30,392,074	15,930,000	3,416,531	49,738,605
Debt retired	-	(1,885,000)	(375,000)	(2,260,000)
Deferred charge on refunding	167,916	-	-	167,916
Discount and deferred credit amortization	(59,592)	-	-	(59,592)
Long-term debt - September 30, 2003	<u>\$ 30,500,398</u>	<u>\$ 14,045,000</u>	<u>\$ 3,041,531</u>	<u>\$ 47,586,929</u>

# City of Wyandotte, Michigan

## Department of Municipal Service

### Notes to Financial Statements September 30, 2003 and 2002

#### Note 6 - Long-term Debt (Continued)

**Debt Service Requirements** - The annual total principal and interest requirements to service all debt outstanding as of September 30, 2003, excluding unamortized discount on bonds payable and current amounts already provided for in restricted assets, are as follows:

Years Ending September 30	2002 Electric Fund Refunding		1992 Electric Fund		1998 Cable Installment		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2004	\$ 295,000	\$ 1,511,951	\$ 2,125,000	\$ 752,813	\$ 375,000	\$ 123,548	\$ 5,183,312
2005	305,000	1,502,364	2,260,000	620,000	375,000	107,910	5,170,274
2006	315,000	1,492,451	2,400,000	478,750	375,000	92,273	5,153,474
2007	325,000	1,482,214	2,550,000	328,750	375,000	76,635	5,137,599
2008	335,000	1,471,652	2,710,000	169,375	375,000	60,998	5,122,025
2009-2013	15,315,000	6,165,523	-	-	1,166,531	90,348	22,737,402
2014-2018	15,100,000	2,082,006	-	-	-	-	17,182,006
Total	\$ 31,990,000	\$ 15,708,161	\$ 12,045,000	\$ 2,349,688	\$ 3,041,531	\$ 551,712	\$ 65,686,092

**Interest** - For the years ended September 30, 2003 and 2002, total interest costs of \$2,475,234 and \$3,260,131, respectively, were incurred in the Electric Fund. For the years ended September 30, 2003 and 2002, the total interest costs incurred in the Cable Fund were \$132,670 and \$148,308, respectively.

**Electric Fund Revenue Bonds** - The 1992 and the 2002 Electric Revenue Refunding Bonds are payable out of the net revenue of the Electric Fund. The City of Wyandotte, Michigan has no liability for these bonds if the net revenue pledged should prove insufficient.

The revenue bond ordinance contains certain covenants and provisions that, among other matters, relate to the following:

- Segregation of proceeds of the revenue bond issue
- Segregation of Electric Fund revenue
- Segregation of assets for debt service payments
- Segregation of assets for construction of improvements to the system
- Periodic transfers of net revenue to those funds segregated for debt service payments
- Sale, lease, or other disposition of all or any substantial part of the system
- Establishment of rates sufficient to provide for required level of debt service coverage
- Adoption of and adherence to budgeted operation and maintenance expenses

# City of Wyandotte, Michigan

## Department of Municipal Service

### Notes to Financial Statements September 30, 2003 and 2002

#### Note 6 - Long-term Debt (Continued)

Included in the current assets of the Electric Fund at September 30, 2003 and 2002 is approximately \$291,000 and \$288,000, respectively, earmarked for future repairs of the system pursuant to the ordinance. Also included in the current liabilities of the Electric Fund at September 30, 2003 is that portion of the bond principal that was to be transferred within the next year to the Bond and Interest Redemption Fund for payment of bond principal.

The following represents maturity schedules of the outstanding bonds payable:

Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
			2003	2002
Amount of issue - \$61,185,000				
Date of issue - April 1, 1992				
* Amounts were defeased in 2002				
6.10	10/01/02	\$ 1,885,000	\$ -	\$ 1,885,000
6.20	10/01/03	2,000,000	2,000,000	2,000,000
6.25	10/01/04	2,125,000	2,125,000	2,125,000
6.25	10/01/05	2,260,000	2,260,000	2,260,000
6.25	10/01/06	2,400,000	2,400,000	2,400,000
6.25	10/01/07	2,550,000	2,550,000	2,550,000
6.25	10/01/08	2,710,000	2,710,000	2,710,000
6.25	10/01/09	2,875,000	*	*
6.25	10/01/10	3,060,000	*	*
6.25	10/01/11	3,245,000	*	*
6.25	10/01/12	3,455,000	*	*
6.25	10/01/13	3,665,000	*	*
6.25	10/01/14	3,900,000	*	*
6.25	10/01/15	4,140,000	*	*
6.25	10/01/16	4,400,000	*	*
6.25	10/01/17	4,675,000	*	*
Total			\$ 14,045,000	\$ 15,930,000

# City of Wyandotte, Michigan

## Department of Municipal Service

### Notes to Financial Statements September 30, 2003 and 2002

#### Note 6 - Long-term Debt (Continued)

	Interest		Amount of	Principal Outstanding	
	Rate	Date of	Annual		
	(Percent)	Maturity	Maturity	2003	2002
Amount of issue - \$31,990,000					
Date of issue - July 9, 2002					
	3.25	10/01/04	\$ 295,000	\$ 295,000	\$ 295,000
	3.25	10/01/05	305,000	305,000	305,000
	3.25	10/01/06	315,000	315,000	315,000
	3.25	10/01/07	325,000	325,000	325,000
	3.50	10/01/08	335,000	335,000	335,000
	3.70	10/01/09	2,835,000	2,835,000	2,835,000
	3.85	10/01/10	2,945,000	2,945,000	2,945,000
	4.00	10/01/11	3,050,000	3,050,000	3,050,000
	4.10	10/01/12	3,180,000	3,180,000	3,180,000
	5.38	10/01/13	3,305,000	3,305,000	3,305,000
	5.38	10/01/14	3,485,000	3,485,000	3,485,000
	5.38	10/01/15	3,670,000	3,670,000	3,670,000
	5.38	10/01/16	3,870,000	3,870,000	3,870,000
	5.38	10/01/17	4,075,000	4,075,000	4,075,000
	Total face value			31,990,000	31,990,000
	Unamortized premium - Net of deferred refunding charge			(1,489,602)	(1,597,926)
	Net			\$ 30,500,398	\$ 30,392,074

#### Defeased Debt

During the year ended September 30, 2002, the Department issued \$31,990,000 in revenue bonds with an average interest rate of 4.22 percent; the proceeds were used to advance refund \$33,415,000 of outstanding 1992 Electric System Revenue Refunding bonds with an average interest rate of 5.90 percent. As a result, the 1992 Revenue bonds are considered to be defeased and the liability for the bonds has been removed from long-term debt in the Enterprise Fund.



# City of Wyandotte, Michigan

## Department of Municipal Service

### Notes to Financial Statements September 30, 2003 and 2002

#### Note 6 - Long-term Debt (Continued)

**Cable Television Fund Installment Purchase Contract** - In October 1998, the Department entered into a Limited Tax General Obligation Installment Purchase Contract for the purpose of financing the purchase and installation of a fiber optic cable network for the Department's cable television system. The Department was authorized to borrow up to \$4,500,000 in accordance with the terms of the contract (at closing date of the borrowing, in April 2001, the final contract amount was \$3,994,031). Beginning in May 1999, interest-only payments at a rate of 4.16 percent per annum are due semiannually with principal payments due as follows:

	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
			2003	2002
Amount of contract - \$3,994,031				
Date of issue - October 16, 1998				
Interest rate - 4.16%				
	11/01/02	\$ 187,500	\$ -	\$ 187,500
	05/01/03	187,500	-	187,500
	11/01/03	187,500	187,500	187,500
	05/01/04	187,500	187,500	187,500
	11/01/04	187,500	187,500	187,500
	05/01/05	187,500	187,500	187,500
	11/01/05	187,500	187,500	187,500
	05/01/06	187,500	187,500	187,500
	11/01/06	187,500	187,500	187,500
	05/01/07	187,500	187,500	187,500
	11/01/07	187,500	187,500	187,500
	05/01/08	187,500	187,500	187,500
	11/01/08	187,500	187,500	187,500
	05/01/09	187,500	187,500	187,500
	11/01/09	187,500	187,500	187,500
	05/01/10	187,500	187,500	187,500
	11/01/10	187,500	187,500	187,500
	05/01/11	187,500	187,500	187,500
	11/01/11	187,500	41,531	41,531
Total			\$ 3,041,531	\$ 3,416,531

# City of Wyandotte, Michigan

## Department of Municipal Service

### Notes to Financial Statements September 30, 2003 and 2002

#### Note 6 - Long-term Debt (Continued)

The installment liabilities are general obligations of the City of Wyandotte and the City would be held responsible should the revenue of the Cable Television Fund prove insufficient to retire the obligations.

#### Note 7 - Restricted Assets

Certain assets are restricted pursuant to Commission resolution. When an expense is incurred that allows the use of restricted assets (such as bond debt principal and interest), those assets are applied before utilizing any unrestricted assets.

Restricted assets consist of the following:

	2003			2002	
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Restricted assets - Investments	\$ 11,504,837	\$ 145,393	\$ 1,109,182	\$ 12,759,412	\$ 12,942,001
Less current liabilities payable from restricted assets:					
Bond principal payable	(2,000,000)	-	-	(2,000,000)	(1,885,000)
Accrued interest payable	(1,227,006)	-	-	(1,227,006)	(840,317)
Total liabilities	(3,227,006)	-	-	(3,227,006)	(2,725,317)
Net restricted assets	<u>\$ 8,277,831</u>	<u>\$ 145,393</u>	<u>\$ 1,109,182</u>	<u>\$ 9,532,406</u>	<u>\$ 10,216,684</u>

These assets are restricted for the following purposes:

	2003			2002	
	Electric Fund	Water Fund	Cable Television Fund	Total	Total
Debt service	\$ 7,989,130	\$ -	\$ 964,143	\$ 8,953,273	\$ 8,293,426
Capital improvements	2,790,821	354	-	2,791,175	3,643,385
Retiree health care	724,886	145,039	145,039	1,014,964	1,005,190
Total	<u>\$ 11,504,837</u>	<u>\$ 145,393</u>	<u>\$ 1,109,182</u>	<u>\$ 12,759,412</u>	<u>\$ 12,942,001</u>

# City of Wyandotte, Michigan

## Department of Municipal Service

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### Notes to Financial Statements September 30, 2003 and 2002

#### Note 7 - Restricted Assets (Continued)

The Electric Fund assets restricted for debt service are pursuant to the 1992 revenue bond ordinance for revenue bond debt service. In conjunction with the bond ordinance, the Commission passed a resolution to reserve retained earnings in the Electric Fund of \$4,687,364, which represents the maximum annual debt service requirement for all outstanding bonds.

Assets have also been restricted in the Electric Fund for future capital improvements and to assist in paying future bond principal and interest payments pursuant to a resolution approved by the Commission.

Assets have been restricted in the Cable Fund to assist in paying future principal and interest payments on the installment purchase contract.

In the Electric, Water, and Cable Funds, monies have been restricted to pay future retiree health care costs, pursuant to a resolution approved by the Commission.

#### Note 8 - Defined Benefit Pension Plan

**Plan Description** - The Department participates in the City of Wyandotte Employees' Retirement System, a defined benefit pension plan that covers all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The City of Wyandotte Employees' Retirement System's financial report (which includes financial statements and required supplementary information for the system) is presented in the City of Wyandotte's September 30, 2003 annual financial report, which may be obtained at the City offices at 3131 Biddle Avenue.

At September 30, 2002, the date of the Department's most recent actuarial valuation, membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	68
Terminated employees entitled to benefits but not yet receiving them	19
Current active employees	97

# City of Wyandotte, Michigan

## Department of Municipal Service

### Notes to Financial Statements September 30, 2003 and 2002

#### Note 8 - Defined Benefit Pension Plan (Continued)

**Funding Policy** - The obligation to contribute to and maintain the system for these employees was established by negotiation with the Department's collective bargaining unit and City ordinance. Effective October 1, 1994, employee contributions are no longer required. For the year ended September 30, 2003, the Department's contribution was approximately \$445,000 for the plan, which was equal to the Department's required and actual contribution.

#### Three-year Trend Information

Funding information for the Department's participation in the pension plan for the fiscal years ended September 30 is as follows:

	2003	2002	2001
Annual pension cost (APC)	\$ 445,000	\$ 438,000	\$ 448,000
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

**Additional Information** - The Department's 2003 contribution represented approximately 11 percent of total contributions required of all participating entities. The assets of the entire system can be called upon to satisfy the obligations of any particular division since the system is ultimately a Citywide PERS. The valuation payroll for all employees covered by the system for the year ended September 30, 2003 was approximately \$12,803,000. The Department's covered payroll was approximately \$5,146,000.

#### Note 9 - Related Party Transactions

City-owned facilities are users of Department electric and water services. The Department includes in its revenue charges from the sale of such services. Pursuant to the revenue bond ordinance, the Department charges the City for street and public safety lighting services. The Department is performing a cost of service study which may result in a change to this charge in future periods. In turn, the City has charged the Department an equal amount for services in lieu of property taxes. The Department also provides billing and cash collection services for the City's sewer use charges, which are then remitted to the City upon collection. The Department earns a related collection fee for these services.

Included in the Department expenses is a franchise fee payable to the City equal to 5 percent of the gross revenue of the Cable Television Fund.

# City of Wyandotte, Michigan

## Department of Municipal Service

### Notes to Financial Statements September 30, 2003 and 2002

#### Note 9 - Related Party Transactions (Continued)

A summary of these transactions with the City for the years ended September 30, 2003 and 2002 is as follows:

	2003	2002
Department revenue:		
Electric and water services	\$ 260,146	\$ 257,549
Street and public safety lighting	439,169	420,555
Collection fee	76,852	84,605
Department expenses:		
In lieu of property taxes	(439,169)	(420,555)
Cable television franchise fee	(259,219)	(254,074)
Operating transfer to City of Wyandotte Sewage Disposal Fund	(92,322)	(129,389)
Remittances to City for sewer use charge collections	(3,125,000)	(1,800,000)
Payable to City of Wyandotte:		
Sewage Disposal Fund	(370,109)	(969,140)
General Fund	-	(772,920)
Water mains contributed by the City	304,136	400,000

#### Note 10 - Risk Management

The Department is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Department has purchased commercial insurance for claims related to general liability and medical benefits. The Department is partially uninsured for workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**Workers' Compensation** - All claims are insured for the per occurrence exposure between the deductible of \$300,000 to \$400,000, depending on the policy year and the policy limits of \$5,000,000.

# City of Wyandotte, Michigan

## Department of Municipal Service

### Notes to Financial Statements September 30, 2003 and 2002

#### Note 10 - Risk Management (Continued)

The Department estimates the liability for workers' compensation claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the Department's Electric Fund, Water Fund, and Cable Television Fund. Changes in the estimated liability were as follows:

Estimated liability - October 1, 2001	\$ 395,026
Estimated claims incurred, including changes in estimates	146,645
Claim payments	<u>(15,567)</u>
Estimated liability - September 30, 2002	526,104
Estimated claims incurred, including changes in estimates	39,645
Claim payments	<u>(115,825)</u>
Estimated liability - September 30, 2003	<u>\$ 449,924</u>

#### Note 11 - Contingencies

The Department is involved in various contingent matters arising in the normal course of operations. While insurance coverages and other potential remedies are available in certain circumstances to varying degrees, no opinion can currently be given as to the ultimate outcome of these matters. No provision has been made for the ultimate liability, if any, that may result from the resolution of these matters.

#### Note 12 - Bond Issuance Costs

During the year ended September 30, 1992, the Department paid \$1,701,856 of bond issuance costs related to the 1992 revenue refunding bonds. Amortization expense amounted to \$73,728 for the year ended September 30, 2002. During the year ended September 30, 2002, as part of the debt retirement disclosed in Note 6, the remaining unamortized balance of \$797,771 was written off and recorded as part of the deferred charge described in Note 6.

During the year ended September 30, 2002, the Department paid \$931,515 of bond issuance costs related to the 2002 revenue refunding bonds. Amortization expense amounted to \$62,100 and \$15,525 for the years ended September 30, 2003 and 2002, respectively.

# **City of Wyandotte, Michigan**

## **Department of Municipal Service**

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### **Notes to Financial Statements** **September 30, 2003 and 2002**

#### **Note 13 - Postemployment Benefits**

The Department provides health care benefits to all full-time employees upon retirement in accordance with labor contracts. Currently, 68 retirees are eligible. The Department includes pre-Medicare retirees and their dependents in its insured health care plan, with some contribution required by most participants, depending upon employee group classifications. The Department purchases Medicare supplemental insurance for retirees eligible for Medicare. Net expenditures for postemployment health care benefits are recognized in the Electric and Water Funds as the insurance premiums become due; this amounted to approximately \$367,000 and \$95,000, respectively, during the year ended September 30, 2003 and \$384,000 and \$72,000, respectively, during the year ended September 30, 2002.

#### **Note 14 - Accounting Change**

During the current year, the Department adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, for the year ended September 30, 2003. Statement No. 34 establishes standards for external financial reporting for all state and local government entities, which includes a management's discussion and analysis section, a balance sheet, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. It requires the classification of net assets into three components - (a) invested in capital assets, net of related debt, (b) restricted for debt service and other purposes, and (c) unrestricted.

The adoption of Statement No. 34 had the following effects on the basic financial statements: changes in the classification of net assets, the reflection of capital contributions as a change in net assets, presentation of the statement of cash flows using both the direct and indirect methods, and the inclusion of a management's discussion and analysis (MD&A) section providing an analysis of the City of Wyandotte Department of Municipal Service's overall financial position and results of operations. Certain amounts presented in the prior year data have been reclassified to be consistent with the current year's presentation.

December 11, 2003

Municipal Service Commission  
City of Wyandotte Department  
of Municipal Service  
3005 Biddle Avenue  
Wyandotte, MI 48192

Members of the Municipal Service Commission:

We have recently completed our audit of the financial statements of the City of Wyandotte Department of Municipal Service for the year ended September 30, 2003. As a result of our audit, we offer the following comments and recommendations for the Department's consideration:

## **ELECTRIC FUND**

### **OPERATING RESULTS AND LONG TERM PLANNING**

The Department's bond ordinance specifies that the Department's Electric Fund budget provide net revenue that equals or exceeds 110 percent of the annual debt service requirement. The ratio that measures the relationship between the Department's net revenue and its annual debt service requirement is known as the "debt service coverage ratio". While the 110 percent debt service coverage ratio test is prospective, it is important that the Department's actual results yield net revenue that equals or exceeds 110 percent of the annual debt service requirement. The actual debt service coverage ratio for the year exceeded 110 percent (approximately 142 percent for the year ended September 30, 2003). As the 110 percent debt service coverage ratio test is re-measured annually, the Department will need to continue to monitor its operating performance relative to this covenant and make adjustments, if necessary.

Another financial covenant in the Department's bond ordinance requires that actual expenditures of the Department do not exceed budget. During the current year, the Department did not have to amend its budget in order to comply with this ordinance.

For the year ended September 30, 2003, the Electric Fund's operating income increased from approximately \$1,335,000 in 2002 to \$1,744,000. However, during the current year, the Department (specifically the Electric Fund) used monies from the capital improvement restricted cash account to pay insurance costs. We continue to encourage the Department to review its capital spending on a multi-year basis to determine the adequacy of its working capital, capital reserves, and customer rates. The increase in operating income was the direct result of a decrease in operating expenses as operating revenue actually experienced a very small decline in the current year. In particular, the following non-residential customer classes reported less revenue in the current year than the prior year: Waste Water, Large Industrial and Primary.



## **RESERVES**

In the past, the Department established reserves within the Electric Fund to call bonds and to fund future capital improvements. During the prior year, the Department used the bond call reserve as part of its refinancing of the 1992 revenue refunding bond issue. As a result, there is a zero balance in the bond call account at September 30, 2003. The capital improvement account was established to provide the Department with the ability to perform capital improvements when they are necessary and when money is not available from the Department's working capital. The capital improvement account has a balance of approximately \$2,791,000 restricted for this purpose at September 30, 2003 (which is net of the current year withdrawal used for insurance costs).

## **WATER FUND**

### **OPERATING RESULTS**

As in past years, the financial performance of the Water Fund continues to struggle. In the current year, adjusted net income continued its decline and water units sold decreased from 2002 and are down 10 percent for 2000 levels. Additionally, the Water Fund has become very reliant on annual capital contributions from the City of Wyandotte Tax Increment Financing Authority to fund water main replacement projects. As a result, the operations of the Water Fund have not generated any meaningful working capital reserves to fund capital outlay or other needs. In addition, this year's new reporting format with the adoption of GASB 34 reflects a deficit in Water Fund unrestricted net assets of approximately \$387,000. As a result, the Department will be required to adopt a deficit elimination plan to be filed with the State of Michigan Department of Treasury. Accordingly, the Department should continue to closely monitor this fund's operating results and evaluate the need for a rate adjustment.

## **CABLE TELEVISION FUND**

### **CABLE FINANCING AGREEMENT**

Several years ago, the borrowings on the installment purchase contract for the purpose of constructing the Department's fiber optic cable network was completed. The Commission, by resolution, created a debt retirement account to provide a source of funds to have the option to prepay on the contract in the future. At September 30, 2003, the balance in this account was approximately \$1,064,000. Since a large portion of net assets is restricted for debt retirement, there are no monies unrestricted for operations. As of September 30, 2003, based on our meeting in December 2003 with the Department's Finance Committee, it is our understanding that the Commission has unrestricted \$100,000 of these monies.

## **GENERAL MATTERS**

### **RETIREE HEALTH CARE**

The Commission has established separate accounts to accumulate monies for retiree health care. In the resolution that created these accounts, the Commission is to determine annually the amount to be transferred within the Electric Fund, the Water Fund, and the Cable Fund from operating cash into the retiree health care restricted accounts. Based on expected developments in the accounting profession which in the future will require the Department to measure its liability for retiree health care, and to better estimate the cost of funding this obligation similar to pension benefits as the benefit is earned, it is our understanding that the Department is working with its actuary to perform valuation analysis on this benefit at some point in the future.

### **ACCOUNTING MATTERS**

We offer the following accounting suggestions with respect to accounting policies and procedures for your consideration.

- In the past, we have discussed with the Department the assignment of responsibilities and the balance with segregation of duties given the practical considerations of size. We continue to encourage the Department to review the assignment of responsibilities, while considering the segregation of duties. As you are aware, segregation of duties is an important component to any organization's system of internal control. In the current year, monthly bank reconciliations were performed, and certain reconciling items were resolved as part of subsequent reconciliations. Creating additional time for accounting staff to perform account balance reconciliations will continue to improve the Department's financial reporting process. Also, as the Department evaluates its current procedures and assignment of responsibilities, the Department should consider incorporating a review component for certain key account reconciliations. Lastly, we noted that there are outstanding checks that date back several years. The Department should consider clearing these items periodically (through re-issuance, escheatment, etc.).
- During our payroll testing, we noted that the Department does not always maintain pay rate information in its personnel file. We suggest that the Department review its procedures for maintaining its personnel files. Also, during our testing of the utility billing system and procedures, we noted that certain reports were not being maintained on a regular basis (i.e. billing summary for service type). We would recommend that the Department review its record retention procedures in this area. Maintaining this information ensures that there is a complete audit trail between the billing system and amounts posted to the general ledger. It is our understanding that as part of the update process for utility billings, a listing of refunds is generated. This listing is then reviewed by the billings clerk and a listing of all refunds is sent to accounts payable for payment. We would recommend that a member of the management team review this listing before any utility refunds are made.

December 11, 2003

- The Department has implemented most of the HTE financial management system. However, the Department has not migrated their fixed asset accounting into the HTE system. We would recommend migrating the data from the old system to the new system, and caution the Department that this implementation will require a time investment by Department staff. At conversion, the Department could use this opportunity to again review all of its fixed asset information, to delete any assets from the system that are no longer in use or modify useful lives as appropriate, and to review its capitalization policy and dollar thresholds.
- The Department records standard monthly accruals for certain account balances based on the nature of the account (i.e. the need to accrue expense now for future costs related to events occurring now). Two examples of these account balances are workers compensation and allowance for doubtful accounts. Based on the Department's positive experience in recent years related to workers compensation claims paid and the positive experience with account write-offs, the Department may want to review the amount of its standard monthly accrual.
- There is typically an adjustment necessary, as a result of the Department's annual physical inventory observation, to adjust the Department's general ledger to agree with the extended cost of the counted items actually in inventory. Many organizations use cycle counting or test counting throughout the year as a technique to isolate adjustments to certain transaction types or areas of inventory. We would recommend that the Department consider reviewing its inventory procedures to minimize the adjustment at the end of year.

## SYSTEM SECURITY

We have discussed with you in the past the importance of the Department assessing its information systems network environments and the development of strategies to ensure that risks associated with down time, hacker intrusions and virus attacks are minimized in a secured environment based on current events. The Michigan Municipal Finance Officers Association and the Michigan Municipal League have developed a very low cost program to independently test an organization's system security from the outside world. We have provided information on this program to the Department.

## CONCLUSION

We have previously reviewed the content of this letter with the Commission's Finance Subcommittee and management and would be happy to further discuss these items if you desire. We would like to take this opportunity to thank all Department personnel for their cooperation and assistance during the course of the audit.

Very truly yours,

PLANTE & MORAN, LLP

  
Frank W. Audia